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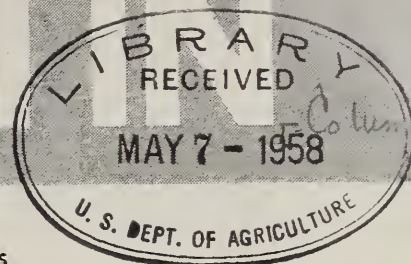
BULLETIN

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Implications of Superpools For The Future of Federal Milk Order Pricing

Excerpts from address by H. L. Forest, Director, Dairy Division, AMS, at University of Wisconsin Farm and Home Week Program held at Madison, Wisconsin, February 5, 1958.

The existence of negotiated premiums over Federal milk order minimum prices in a number of markets has prompted questions about the reasons for these premiums and the implications of this development on the future of the program.

In some markets the additional payments have been made through an equalization fund operated by a bank or cooperative association about like a market-pool. These are superpools of payments in excess of the Federal order class prices.

Such premium payments are made by handlers voluntarily in the sense that they are not enforceable by the Federal Government. The handlers who agree to pay premiums would probably not describe them as voluntary payments. They would be more likely to say that the premium payment was necessary to get the milk. When producers demand a premium, handlers must decide whether to pay it, to negotiate for something better, or to look for another source of supply.

If handlers agree to pay a premium, one might ask "Why doesn't the Federal Government adopt that price as the minimum Class I price in the Federal milk order?" The answer is, of course, that Congress placed limits on the level

of prices which the Federal Government can establish and enforce in a Federal milk order.

The Agricultural Marketing Agreement Act requires that prices shall be established at levels which will reflect economic conditions affecting supply and demand, and will produce an adequate supply of milk for fluid market sales and be in the public interest. It provides further that no provision of a Federal milk order may exclude from the market, milk produced in any area of the United States.

This means that minimum prices under Federal milk orders have to be established at levels which will bring forth an adequate supply of pure and wholesome milk from any available source. It also means that we may not maintain an unnecessarily high Class I price and then through the classified price plan divert to manufacturing an unlimited quantity of milk which is surplus to the fluid market at that price.

Although Federal order minimum prices must be established within the limits authorized by Congress, producers are sometimes able to obtain temporary prices higher than the supply would normally support. This is possible because handlers may be reluctant to go to the trouble of developing a new supply of

milk. However, if one handler decides he can secure a continuing supply of milk without paying the premium, he may upset the premium agreement.

Other handlers seeing the nonconformist buying milk at less than they must pay anticipate his next move which is to offer milk to their customers at a lower price. At this point they pass the word to producers that the premium must go or they get another supply of milk.

Superpools and premium prices sometimes create self-destroying market situations. The higher prices often invite suppliers of milk from distant points to offer their milk in the premium market. If the offer constitutes a supply of sufficient size it may not only create a situation in which premiums disappear but handling charges on inter plant movements may be pared to meet this outside competition.

Demands for premiums in some instances have become so great that handlers have rejected all milk offered under such conditions and sought supplies elsewhere. Such shifts are made most readily by handlers supplying a small market surrounded by ample supplies of milk.

The lack of uniformity with which premiums have been applied has contributed to their destruction in some markets. Sometimes the agreement to make premium payments is not market-wide. If premiums are collected only on Class I sales in the marketing area, that, too can be a disturbing factor. Handlers who

(Continued on page four)



Columbus

MARKET FACTS FOR EASY REFERENCE

PRICE SUMMARY

Producers' Uniform Price (3.5%)	
Producers' Uniform Price (4%)	
Class I (3.5%)	
Class II (3.5%)	
Class III (3.5%)	
Class IV (3.5%)	
Producer Butterfat Differential for each 1/10%	

Jan. 1958	Dec. 1957	Jan. 1957
\$4.28	\$4.24*	\$4.46
4.625	4.59	4.815
4.411	4.419	4.554
4.011	4.019	4.154
3.911	3.919	4.054
3.088	3.096	3.067
6.9¢	7.0¢	7.1¢

UTILIZATION SUMMARY

Percent of Producer Milk in Class I	
" " " B.F. " " I	
" " " Milk " " II	
" " " B.F. " " II	
" " " Milk " " III	
" " " B.F. " " III	
" " " Milk " " IV	
" " " B.F. " " IV	

84.9	79.9	86.0
78.1	73.4	81.4
7.3	7.4	7.6
1.9	3.4	2.2
2.9	4.0	3.1
2.7	3.2	3.0
4.9	8.7	3.3
17.3	20.0	13.4

PRODUCTION SUMMARY

Total Pounds of Producer Milk Delivered	
Average Daily Class I Producer Milk	
Total Number of Producers	
Average Daily Production per Producer	
Average Butterfat Test	
Total Value of Producer Milk at Test	
Income per Producer (7 Day Average)	

25,086,958	24,923,644	23,716,076
686,821	642,343	657,637
1,857	1,863	1,936
436	432	395
3.86	3.93	3.90
\$1,134,375.22	\$1,130,906.61	\$1,123,025.55
\$137.94	\$137.07	\$130.98

GROSS CLASS USE (Pounds)

Class I Skim	
" I B.F.	
" I Milk	
" II Skim	
" II B.F.	
" II Milk	

20,535,623	19,194,165	19,633,677
755,842	718,467	753,077
21,291,465	19,912,632	20,386,754
1,822,850	1,819,452	1,790,342
18,231	33,518	20,500
1,841,081	1,852,970	1,810,842

AVERAGE DAILY SALES (Quarts)

Milk	
Buttermilk	
Chocolate	
Skim	
Cream	

271,947	255,595	269,032
5,235	4,839	5,342
13,624	11,474	12,906
8,976	7,631	8,003
7,789	7,869	7,873

*Fall Production Payment 51¢ per cwt. additional

COMPARATIVE STATISTICS ★

COLUMBUS MARKETING AREA

★ **JAN., 1949-58**

Year	Receipts From Producers	Average Butter-fat Test	Percentage of Producer Milk in Each Class				Uniform Producer Price (3.5%)	Class Prices at 3.5%				Number of Producers	Average Daily Production
			Class I	Class II	Class III	Class IV		Class I	Class II	Class III	Class IV		
1949.....	15,269,404	4.22	78.0	7.3	9.1	5.6	4.54	4.65	4.40	3.866	3.412	2,441	202
1950.....	16,279,184	4.20	79.7	13.0	7.3	—	3.29	4.057	3.657	3.081	—	2,441	215
1951.....	16,553,458	4.22	81.9	15.3	2.8	—	4.64	4.772	4.372	3.45	—	2,136	250
1952.....	16,456,769	4.14	85.3	13.0	1.7	—	5.19	5.269	4.869	4.093	—	2,094	254
1953.....	19,750,387	4.09	80.4	13.5	6.1	—	4.57	4.715	4.315	3.64	—	2,218	287
1954.....	23,085,076	4.06	73.5	12.9	13.6	—	4.13	4.34	3.94	3.46	—	2,243	332
1955.....	23,237,473	3.97	78.1	7.2	5.5	9.2	3.95	4.142	3.742	3.742	3.166	2,146	349
1956.....	24,586,227	3.94	77.8	8.1	6.4	7.7	3.94	4.125	3.725	3.725	3.142	2,085	380
1957.....	23,716,076	3.90	86.0	7.6	3.1	3.3	4.46	4.554	4.154	4.054	3.067	1,936	395
1958.....	25,086,958	3.86	84.9	7.3	2.9	4.9	4.28	4.411	4.011	3.911	3.088	1,857	436

Prices on Most Feeds Lower Than a Year Ago

Feed prices generally are at about the lowest level since World War II. In early January prices of feed grains, hay and many of the byproduct feeds were around 15 to 20 percent lower than a year ago. Greatest declines from a year earlier have been in the feed grains and lower protein byproduct feeds, while the high-protein feeds are nearer last year's level. Prices received by farmers for feed grains in December averaged 19 percent lower than a year earlier. Of the 4 feed grains, the greatest decline was for sorghum grains, the price of which averaged 27 percent lower. Among the byproduct feeds, sharpest declines were for wheat millfeeds which dropped about 26 percent, gluten feed 21 percent and blackstrap molasses about 38 percent. The decline in prices of the lower protein feeds is partly the result of the big supplies of feed grains, especially corn and sorghum grains. The small percentage of the 1957 corn eligible for the higher support rate of \$1.40 per bushel and the high moisture content of corn and sorghum grains also have tended to hold prices of these grains down.

Relatively heavy receipts of high moisture corn this year have resulted in a greater than usual discount for the lower grades of corn at mid-western markets. In recent weeks the price of No. 5 corn at Chicago has averaged around 12 to 15 cents per bushel below No. 2, compared with a difference of only 3 to 6 cents a year ago. Even greater discounts have been reported for high moisture corn sold as ear corn for livestock feeding in some local areas of the Midwest.

The heavy receipts of corn in December, and the first half of January, resulted in a weakening of corn prices from November to the middle of January. In nine of the past 10 years, the price of No. 3 Yellow corn at Chicago has averaged higher in January than in November, with the increase ranging from 3 to 16 cents per bushel. This year, however, the price of No. 3 Yellow corn continued to decline slightly in December and early January. The average price for the week-ended January 17 was \$1.10 per bushel, 4 cents lower than the weekly low for November and 25 cents lower than a year earlier.

Prices of high-protein feeds have declined much less than feed grain prices from the 1956-57 level. In December, wholesale prices of the 11 principal high-protein feeds averaged 6 percent lower than a year earlier. With continued heavy production of soybean meal this year, soybean meal prices have been low in relation to prices of some of the other important protein feeds. In the first half of January, soybean meal at Chicago sold for 11 percent less than a year ago, while cottonseed meal and fish meal prices were near those of a year earlier

and tankage and meat meal were a little higher. Soybean meal prices also were low relative to these four feeds as compared with the 1947-56 average. Prices of linseed meal and gluten feed, on the other hand, declined more than soybean meal during the past year, and also are relatively cheap this winter.

Corn Acreage Reserve Payment Set at \$44.46 Per Acre

Under the provisions of the 1958 Acreage Reserve Program, the national average payment rate for corn placed under the Acreage Reserve will be \$44.46 per acre, compared with the 1957 rate of \$42.66 per acre. The increase in the payment reflects the upward trend in yield per acre. Acreage Reserve payments will be made to farmers for reducing 1958 acreage of corn below their acreage allotments. Farmers who took part in the 1957 Acreage Reserve Program will also be given a 10 percent premium if they put the identical land in the 1958 program.

The goal for the corn Acreage Reserve Program is 4 to 5 million acres. Of the 500 million dollars available for the 1958 Acreage Reserve Program, 174.6 million dollars has been allotted to corn. Under the 1957 program farmers placed 5.2 million acres under the program and received payment totaling 196.4 million dollars. Payments averaged about \$37.50 per acre, well below the announced national average, as much of the acreage was in the lower yielding areas of the western Corn Belt.

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Implications of Superpools (Continued from page one)

have large out-of-area sales have an advantage in such cases.

When we describe the effects of variable premium prices on the Federal milk order program we are also describing the effects of such variation on the dairy industry. Federal milk orders, after all, are merely tools to serve the industry within the authority permitted by the statute. The problem of price levels which produce orderly marketing is an industry problem.

It is said that a clear understanding of a problem goes a long way toward its solution. If we direct our attention to analyzing the conditions which have brought about demands for negotiated premiums and superpools, we may get a perspective of their future import.

When we look at the circumstances in each individual market we find a variety of reasons. Handlers in some markets declare they are willing to pay higher Class I prices to maintain good relations with producers. Producers are pressed by a cost-price squeeze which prompts them to demand premiums. Premiums in one market beget premiums in neighboring markets as handlers struggle to hold their supply of milk.

The cost-price squeeze has affected dairymen to some extent in all areas. The amount of pressure has varied in different markets according to the different price levels. In the country as a whole, however, milk prices relative to other

Market Quotations

January
1958

12 MIDWEST CONDENSERIES 3.5% per Cwt.	\$3.133
5 CONDENSERIES (Cincinnati) 3.5% per Cwt.	2.9506
5 CONDENSERIES (North Central Ohio) 3.5% per Cwt.	3.017
2 CONDENSERIES (Toledo) 3.5% per Cwt.	2.988
4 CONDENSERIES (Tri-State) 3.5% per Cwt.	3.086
Evaporated Milk Code Price, 3.5% per Cwt.	2.834
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Cincinnati)	3.2179
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Columbus)	3.211
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Dayton)	3.235
Skim Milk Powder-Butter Price, 3.5% per Cwt. (Toledo-Tri-State)	3.109
Average Weekly Cheddars price per lb.	.3325
Average price per lb. non-fat dry milk solids, roller process delivered Chicago	.15125
Average price per lb. 92-score butter at Chicago	.59375
Average carlot prices non-fat dry milk solids, roller and spray process, f.o.b. manufacturing plant	.14535

prices have been better in the past two years than they were in 1954 and 1955. The upsurge in premiums during the past two years can hardly be attributed to a worsening of the relative economic position of dairymen.

In order to understand and deal effectively with the problems which are developing in Federal order markets as a result of this premium situation, we need the thoughtful assistance of all who are interested in the welfare of dairy farmers and of the entire industry. We need to analyze and understand the factors which produce the problem. We need to explore all of the pricing terms and all other provisions of these orders to assure ourselves that the pricing plans are well-designed and adapted to current circumstances. And we need to consider the effect that today's premium prices have on tomorrow's market.

1957 Milk Production Estimated at 127 Billion Pounds

Milk production on farms totaled 9,384 million pounds in December, 1957, and exceeded the record high of the previous December by nearly 2 percent and the 1946-55 average for the month by 14 percent. Production increased 7 percent from November to December compared with a seasonal gain of 6 percent last year and the average increase of 4 percent. The total quantity produced in December was sufficient to provide 1.75 pounds of milk daily to each person in the country. This was slightly less than for December 1956, but 2 percent more than average for the month.

The sum of the 12 monthly milk production estimates in 1957 was 127.0 billion pounds, or 1 percent more than the previous record high of 125.7 billion pounds in 1956.